



By Shaun Byron

Thursday, August 1, 2013

Genesee County postpones \$53 million bond sale following Detroit's bankruptcy filing



David Kudla

GENESEE COUNTY, MI (excerpt) -- Genesee County officials have delayed the sale of \$53 million in municipal bonds, part of which is for a \$274 million water pipeline project, in the wake of Detroit's bankruptcy filing.

The bond sale was intended to take place Thursday, Aug. 1, but was postponed because the market was too unstable, said Jeff Wright, Genesee County drain Commissioner. ...

...The sale was postponed on the advice of financial experts to obtain the most favorable financial market conditions and to get the maximum savings for water ratepayers in the area, according to a press release issued by Wright's office. ...

...Postponing the sale is a prudent move because there's a high level of uncertainty and anxiety concerning the sale of municipal bonds in Michigan following Detroit's bankruptcy filing, said David Kudla, founder, CEO and chief investment strategist of the independent investment firm Mainstay Capital Management in Grand Blanc.

"It's a tough time to be coming forward with a municipal bond offering in the state of Michigan, especially in another area where people are concerned about the financial distress," Kudla said.

The impact of Detroit's bankruptcy and the city's Emergency Manager Kevin Orr treating the general obligation debt as unsecured debt, as well as no sign of a state or federal bailout, is creating instability in the state's market, Kudla said.

"If Michigan municipal debt is considered riskier than what it was before, then it is going to demand a higher yield and that's what is happening with the Genesee County offering," he said. ...

...The bond sale was postponed on the advice of financial advisers.

"They just tell me it's not a good market to be in today, for multiple reasons," Wright said. "When the market settles down, we'll get back into it."

Kudla, however, said Detroit's bankruptcy is so unprecedented, that a reconsideration of municipal debt will take place across the nation.

The bankruptcy case involving Detroit is likely to go on for several months, said Kudla.

"It's a very fluid situation," he said. "It hasn't settled out what the impact is going to be. There's going to be a lot of headlines and people wringing their hands, but municipal debt is going to require a higher yield."

At some point, Genesee County will have to make a determination what to do, but waiting for the market to settle is down is the right decision, Kudla said.

"Whether they wait days, weeks or months will be up to them," he said.